

**Independent School District No. 14
Fridley, Minnesota**

Communications Letter

June 30, 2022



Independent School District No. 14
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Report on Matters Identified as a Result of the Audit of the Basic Financial Statements

To the School Board and Management
Independent School District No. 14
Fridley, Minnesota

In planning and performing our audit of the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 14, Fridley, Minnesota, as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The significant deficiency identified is stated within this letter.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated November 3, 2022, on such statements.

This communication, which is an integral part of our audit, is intended solely for the information and use of management, the School Board, and others within the District and state oversight agencies is not intended to be, and should not be, used by anyone other than these specified parties.

Bergan KDV Ltd.

Minneapolis, Minnesota
November 8, 2022

Independent School District No. 14 Significant Deficiency

Lack of Segregation of Accounting Duties

The District has a lack of segregation of accounting duties due to a limited number of office employees. This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Accounts Payable Clerk enters invoices into the system and prepares the checks.
- The Accounting Supervisor has access to all areas of the accounting system.
- The Accounting Supervisor and Payroll Specialist have overlapping duties within the payroll process

This lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the basic financial statements.

Management is aware of this condition and will take certain steps to compensate for the lack of segregation but due to the number of accounting staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct.

Independent School District No. 14 Required Communication

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2022. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the basic financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the basic financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the basic financial statements are free of material misstatement. An audit of the basic financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Generally accepted accounting principles provide for certain Required Supplementary Information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic audit financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the basic financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the basic financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Our Responsibility in Relation to *Government Auditing Standards*

As communicated in our engagement letter, part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Independent School District No. 14 Financial Analysis

Our Responsibility in Relation to Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)

As communicated in our engagement letter, in accordance with the Uniform Guidance, we examined on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on the District's compliance with those requirements.

In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

We have identified the following significant risks of material misstatement:

- Management Override of Controls – Overall Financial Statements – Management over of internal control is considered a risk in substantially all engagements as management may be incentivized to produce better results.
- Improper Revenue Recognition – Revenue recognition is considered a fraud risk on substantially all engagements as it generally has a significant impact on the results of the governments operations. In addition, complexities exist surrounding the calculation and recording of various revenue sources.

Qualitative Aspects of the District's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in the notes to the basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Independent School District No. 14 Financial Analysis

Qualitative Aspects of the District's Significant Accounting Practices (Continued)

Significant Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgements. The most sensitive estimates affecting the basic financial statements relate to:

Depreciation – The District is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

General Education and Special Education Aid – General Education Aid is an estimate until average daily membership (ADM) values are final. Since this is normally not done until after the reporting deadline, this Aid is an estimate. Special Education Aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

Total Other Post Employment Benefits (OPEB) Liability, Deferred Outflows of Resources Related to OPEB and Deferred Inflows of Resources Related to OPEB – These balances are based on an actuarial study using the estimates of future obligations of the District for post employment benefits.

Net Pension Liability, Deferred Outflows of Resources Related to Pension Activity, and Deferred Inflows of Resources Related to Pension Activity – These balances are based on an allocation by the pension plans using estimates based on contributions.

We evaluated the key factors and assumptions used to develop the accounting estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain basic financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The basic financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effects of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the basic financial statements taken as a whole and each applicable opinion unit.

Independent School District No. 14 Financial Analysis

Uncorrected and Corrected Misstatements (Continued)

We identified the following uncorrected misstatements of the basic financial statements. Management has determined their effect is immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole and each opinion unit.

- In-kind state contribution related to pensions
- State receivable and related revenue

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the basic financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's basic financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating, and regulatory conditions affecting the District, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditor.

Other Information Included in Annual Reports

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the District's annual reports, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Independent School District No. 14
Financial Analysis

Other Information Included in Annual Reports (Continued)

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

Independent School District No. 14 Financial Analysis

The following pages provide graphic representation of select data pertaining to the financial position and operations of the District for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours.

Average Daily Membership and Pupil Units

The largest single funding source for Minnesota school districts is basic General Education Aid. Each year, the State Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a district is entitled to aid. Pupil units are calculated using a legislatively determined weighting system applied to ADM. Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment districts.

<u>Year</u>	<u>General Education Aid Formula Allowance</u>	
	<u>Amount</u>	<u>Percent Increase</u>
2013	\$ 5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%
2019	6,312	2.0%
2020	6,438	2.0%
2021	6,567	2.0%
2022	6,728	2.5%
2023	6,863	2.0%

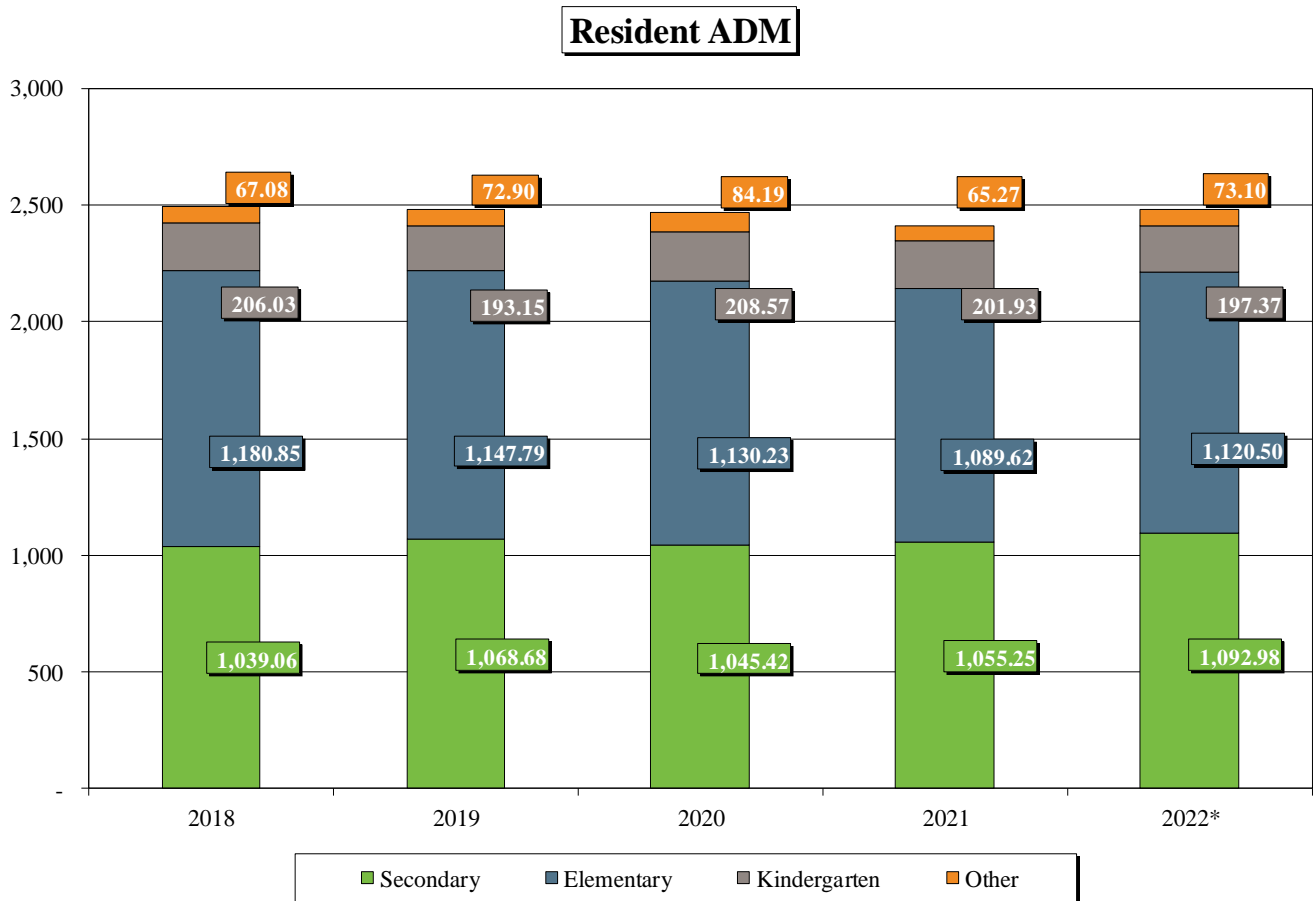
* General Education Aid - Of the \$529 increase over 2014, \$105 is for inflation at 1.9%; the remaining \$424 is a shifting of revenue to adjust for pupil weight changes, pension adjustments changes and other restructuring.

Independent School District No. 14 Financial Analysis

Average Daily Membership and Pupil Units (Continued)

Approximately 75% of the District's General Fund revenue is from the state. A majority of this funding is based on student counts, so an understanding of the District's population trends is critical to overall budgeting plans. The following summarizes resident ADM of the District over the past five years ended June 30.

Resident ADM	2018	2019	2020	2021	2022*
Other	67.08	72.90	84.19	65.27	73.10
Kindergarten	206.03	193.15	208.57	201.93	197.37
Elementary	1,180.85	1,147.79	1,130.23	1,089.62	1,120.50
Secondary	1,039.06	1,068.68	1,045.42	1,055.25	1,092.98
Total Resident ADM	2,493.02	2,482.52	2,468.41	2,412.07	2,483.95



* Estimate

The chart and graph above show an increase in resident ADM from 2021 to 2022 of 71.88 ADM, or 2.98%.

Independent School District No. 14 Financial Analysis

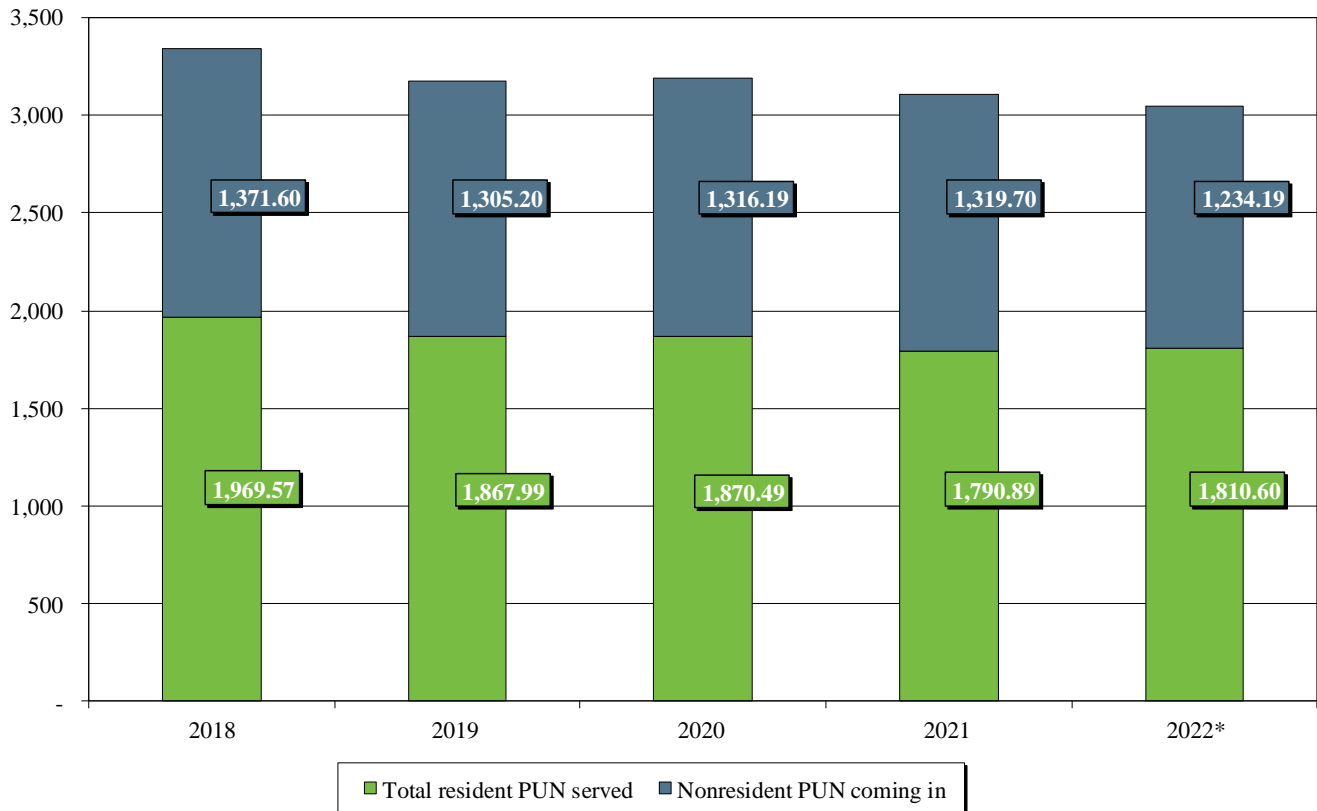
Average Daily Membership and Pupil Units (Continued)

	Pre-Kindergarten	Handicapped Kindergarten	Kindergarten Half	Kindergarten Full	Elementary Grades 1-3	Elementary Grades 4-6	Secondary
2018-2022	1.000	1.000	0.550	1.000	1.000	1.000	1.200

The PUN served table and graph below converts the resident ADM into weighted or adjusted pupil unit data for the past five years taking into consideration the above weighting factors and open enrollment.

PUN	2018	2019	2020	2021	2022*
Residents	2,700.85	2,695.88	2,677.49	2,623.03	2,702.55
Resident PUN going elsewhere	(731.28)	(827.89)	(807.00)	(832.14)	(891.95)
Total resident PUN served	1,969.57	1,867.99	1,870.49	1,790.89	1,810.60
Nonresident PUN coming in	1,371.60	1,305.20	1,316.19	1,319.70	1,234.19
Total Adjusted PUN	3,341.17	3,173.19	3,186.68	3,110.59	3,044.79

Adjusted PUN



* Estimate

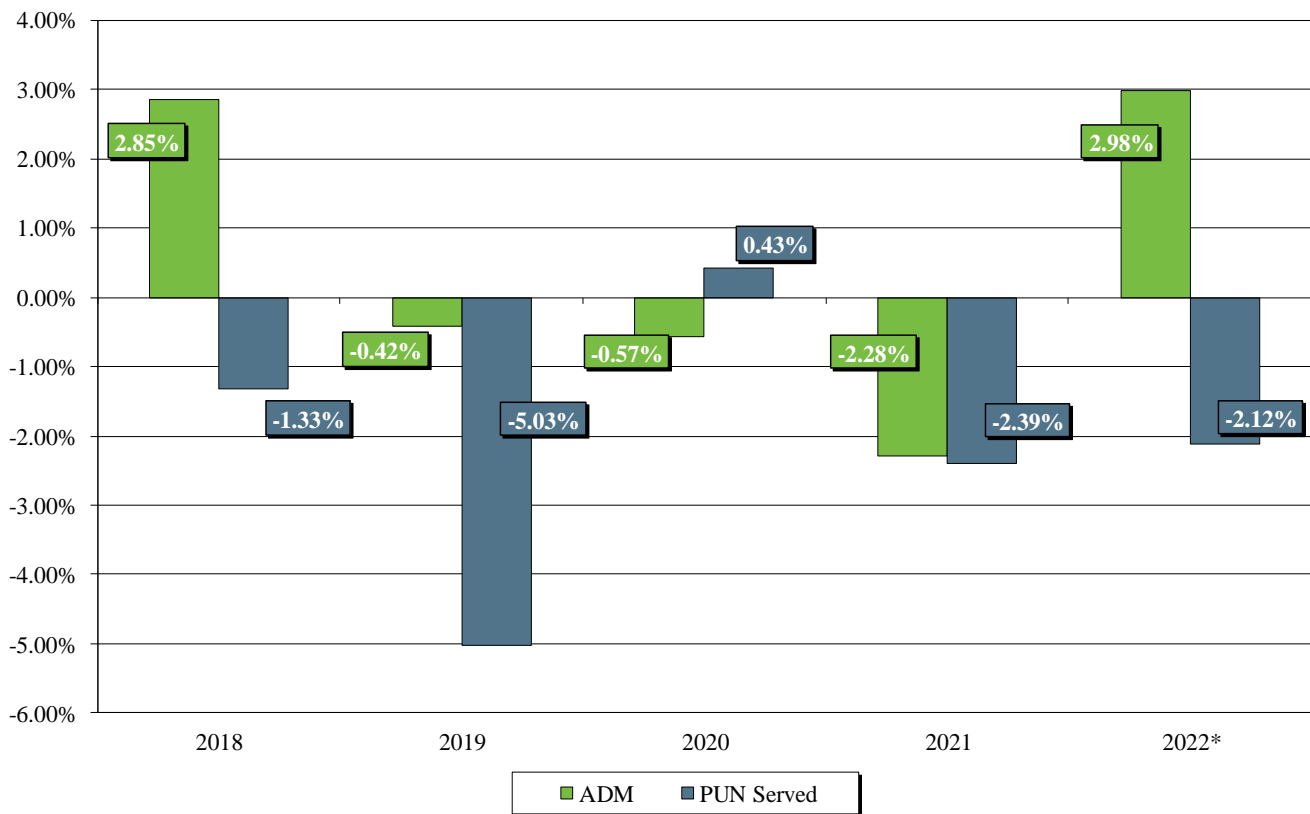
Independent School District No. 14 Financial Analysis

Average Daily Membership and Pupil Units (Continued)

In 2022, resident PUN increased 79.52, or 3.03%. PUN served decreased 65.80 PUN or 2.12%, a result of a decrease in nonresident PUN coming in. The District continues to have a net gain from open enrollment. Nonresident PUN make up 40.5% of PUN served.

The following graph illustrates the percentage change from year-to-year in resident ADM and PUN served.

Change in ADM and PUN Served



* Estimate

**Independent School District No. 14
Financial Analysis**

General Fund Revenues Budget and Actual

The graph below outlines the District's final budget and actual results for the General Fund.

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 7,674,176	\$ 7,674,176	\$ 7,579,755	\$ (94,421)
Other local revenues	1,028,034	1,007,278	1,151,735	144,457
Revenue from state sources	35,580,456	36,388,951	35,102,954	(1,285,997)
Revenue from federal sources	1,263,401	1,263,401	2,806,497	1,543,096
Sales and other conversion of assets	500	4,456	7,571	3,115
Total revenues	<u>45,546,567</u>	<u>46,338,262</u>	<u>46,648,512</u>	<u>310,250</u>
Expenditures				
Administration	2,017,969	1,935,516	1,895,255	(40,261)
District support services	2,192,831	2,044,757	2,464,226	419,469
Regular instruction	17,286,143	19,759,966	19,634,964	(125,002)
Vocational instruction	551,003	551,003	502,231	(48,772)
Special education instruction	9,808,954	9,437,644	8,793,616	(644,028)
Instructional support services	2,913,577	3,347,389	3,486,827	139,438
Pupil support services	5,167,980	4,716,993	5,253,969	536,976
Sites and buildings	4,233,665	4,680,655	5,638,539	957,884
Fiscal and other fixed cost programs	1,056,597	1,056,597	1,233,101	176,504
Total expenditures	<u>45,228,719</u>	<u>47,530,520</u>	<u>48,902,728</u>	<u>1,372,208</u>
Excess of revenues over (under) expenditures	317,848	(1,192,258)	(2,254,216)	(1,061,958)
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	4,876	4,876
Proceeds from leases	-	-	126,171	126,171
Proceeds from financed purchases	322,535	322,535	580,145	257,610
Transfers out	(690,994)	(690,994)	(827,336)	(136,342)
Total other financing sources (uses)	<u>(368,459)</u>	<u>(368,459)</u>	<u>(116,144)</u>	<u>252,315</u>
Net change in fund balances	<u>\$ (50,611)</u>	<u>\$ (1,560,717)</u>	<u>\$ (2,370,360)</u>	<u>\$ (809,643)</u>

The District approved a final General Fund revenue budget of \$46,338,262. With actual revenues coming in at \$46,648,512, the final budget produced a variance of \$310,250 or 0.7%. The largest variances were in federal and state revenues. Revenues from federal sources were primarily over budget as a result of budgeting conservatively as the district was unsure which awards would be used. State source were under budget due to a higher than expected decline in student counts and general education aid.

**Independent School District No. 14
Financial Analysis**

General Fund Revenues Budget and Actual (Continued)

In total, General Fund expenditures were over budget 2.9% or \$1,372,208. District support service expenditures were over budget due to unemployment benefits and cooperative expenditures. Pupil support service expenditures were over budget as transportation costs increased at a higher rate than anticipated. Expenditures in sites and buildings were over budget as a result of boiler failures and replacements. Offsetting these budget overages, special education instruction expenditures were under budget with employee benefits coming in lower than anticipated.

General Fund Sources of Revenue

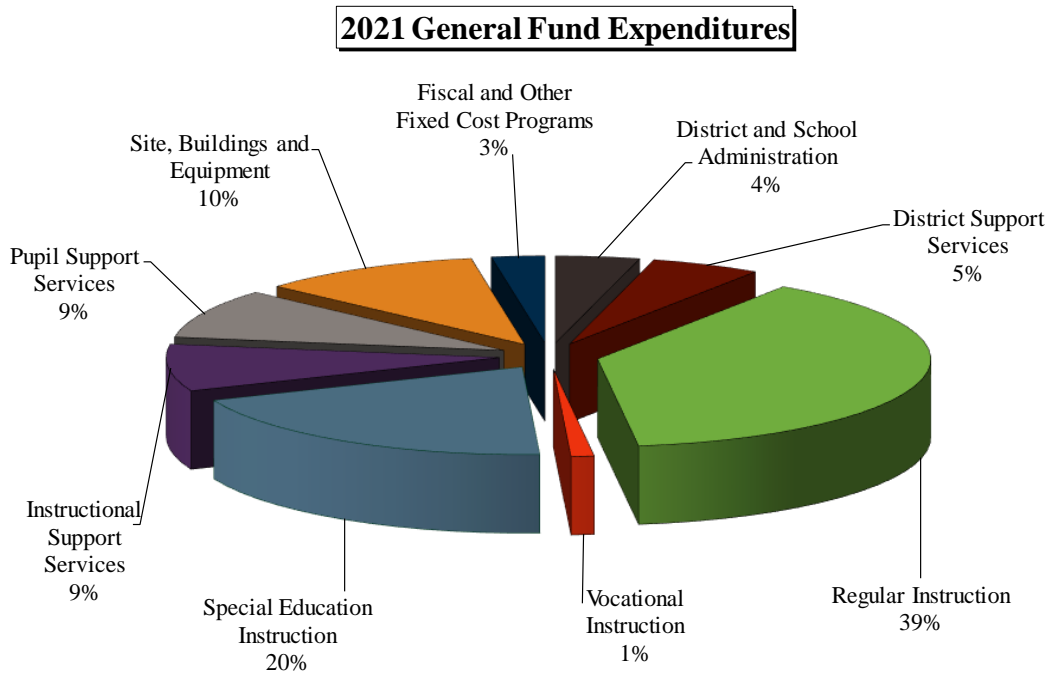
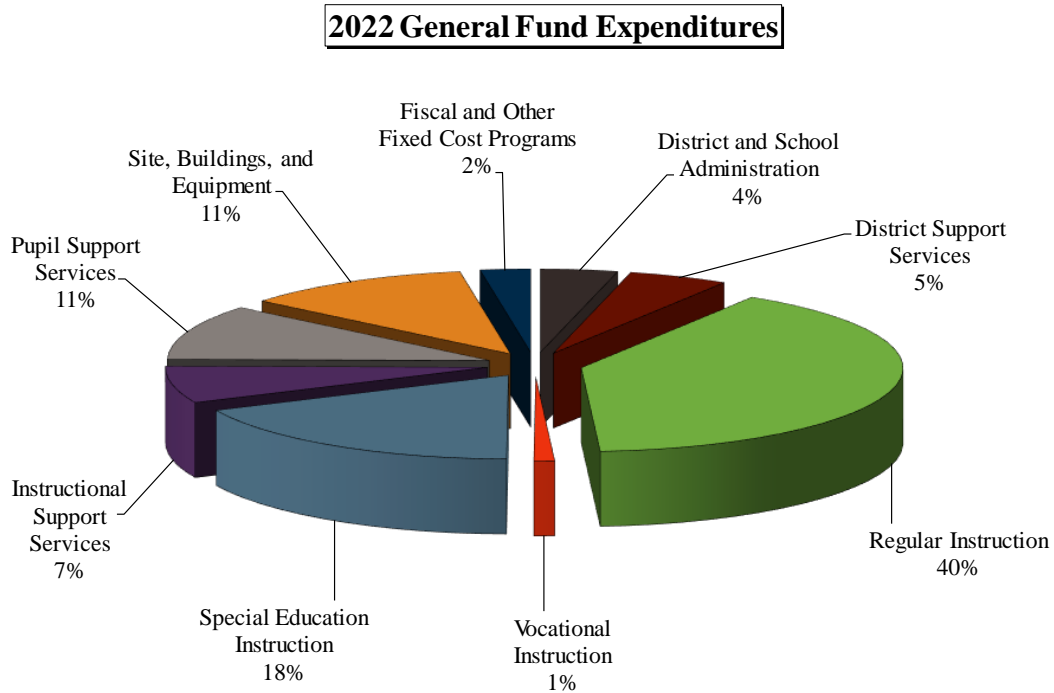
General Fund sources of revenue are summarized as follows:

	2018	2019	2020	2021	2022*
Local property taxes	\$ 5,586,336	\$ 6,303,819	\$ 6,457,443	\$ 7,512,337	\$ 7,579,755
State sources	35,959,679	35,747,873	35,171,289	35,274,529	35,102,954
Other	2,453,741	2,732,712	2,765,323	4,308,999	3,965,803
Total	\$ 43,999,756	\$ 44,784,404	\$ 44,394,055	\$ 47,095,865	\$ 46,648,512

State sources are 75.3% of the total General Fund revenue, with local taxpayers contributing 16.2% of the funding and federal and other sources making up the remaining 8.5%. Total revenue for 2022 decreased \$447,353 from \$47,095,865 in 2021 to \$46,648,512 in 2022. Other sources of revenue decreased as a result of less federal funding sources due to receiving more COVID related grants in the prior year. All other revenue sources stayed consistent with prior year numbers.

Independent School District No. 14 Financial Analysis

General Fund Expenditures



The allocation of expenditures has remained fairly consistent from year-to-year as shown above. The three instruction categories, regular, vocational, and special education comprise 59% and 60% of the total expenditures for 2022 and 2021.

**Independent School District No. 14
Financial Analysis**

General Fund

The following table presents comparative operating results for the District's General Fund:

For the Year Ended June 30,	2018	2019	2020	2021	2022
Revenues	\$ 43,999,756	\$ 44,784,404	\$ 44,394,055	\$ 47,095,865	\$ 46,648,512
Expenditures excluding OPEB	43,240,714	43,302,652	42,338,911	44,687,856	48,902,728
Excess of revenues over (under) expenditures	759,042	1,481,752	2,055,144	2,408,009	(2,254,216)
Sale of capital assets	-	-	-	20,279	4,876
Proceeds from leases	-	-	-	-	126,171
Proceeds from financed purchases	566,843	-	268,015	410,880	580,145
Transfers out	(1,551,781)	(725,740)	(832,061)	(708,586)	(827,336)
Fund balance, July 1	5,353,187	5,127,291	5,883,303	7,460,945	9,591,527
Change in accounting principle	-	-	86,544	-	-
Fund Balance, June 30	\$ 5,127,291	\$ 5,883,303	\$ 7,460,945	\$ 9,591,527	\$ 7,221,167
Components					
Nonspendable	\$ 300,318	\$ 144,601	\$ 207,678	\$ 341,966	\$ 523,972
Restricted for					
Student activities	-	-	68,462	79,365	86,689
Health and safety	(1,179)	-	-	-	-
Capital projects levy	(2)	4,019	279,040	177,408	64,950
Area learning center	-	-	-	-	40,908
Safe schools - crime levy	68,167	87,714	193,069	258,467	231,367
Operating capital	176,644	537,547	425,933	333,849	216,128
Long term facilities maintenance	(289,308)	25,658	60,196	1,004,602	145,458
Medical assistance	294,904	294,904	715,356	984,319	1,526,898
Assigned	2,028,808	2,246,081	2,599,775	3,291,873	1,276,042
Unassigned	2,548,939	2,542,779	2,911,436	3,119,678	3,108,755
Total	\$ 5,127,291	\$ 5,883,303	\$ 7,460,945	\$ 9,591,527	\$ 7,221,167

The District's General Fund revenues decreased \$447,353, or 0.9%, from the prior year, while expenditures increased \$4,088,701, or 9.1%. Regular instruction expenditures increased \$2,379,128 due to contract increases and retention bonuses. Pupil Support Services increased \$1,155,294 due to increased bussing with students back in school versus distance learning a portion of the prior year. Sites, buildings and equipment expenditures increased \$811,253 due to boiler failures and replacements.

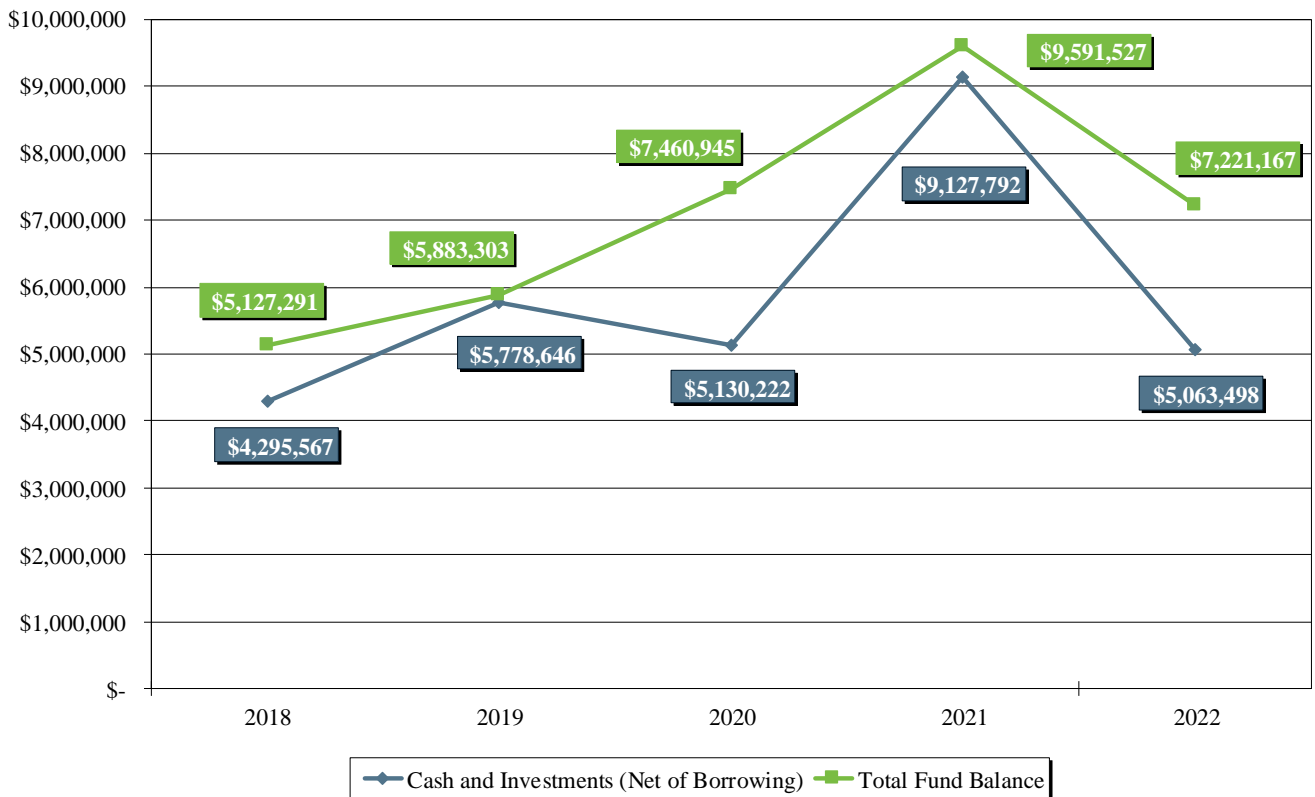
The District's expenditures exceeded revenues by \$2,254,216 for 2022. The District received lease and financed purchase proceeds and monies from the sale of capital assets. The District transferred \$827,336 out to other funds for community education and capital project portions of the levy referendum.

Independent School District No. 14 Financial Analysis

General Fund Financial Position

Overall, the District's General Fund total fund balance increased \$2,370,360 in 2022. The District's unassigned portion of fund balance decreased \$10,923 from 2021, ending the year with a balance of \$3,108,755.

General Fund Financial Position



Independent School District No. 14 Financial Analysis

Food Service Fund

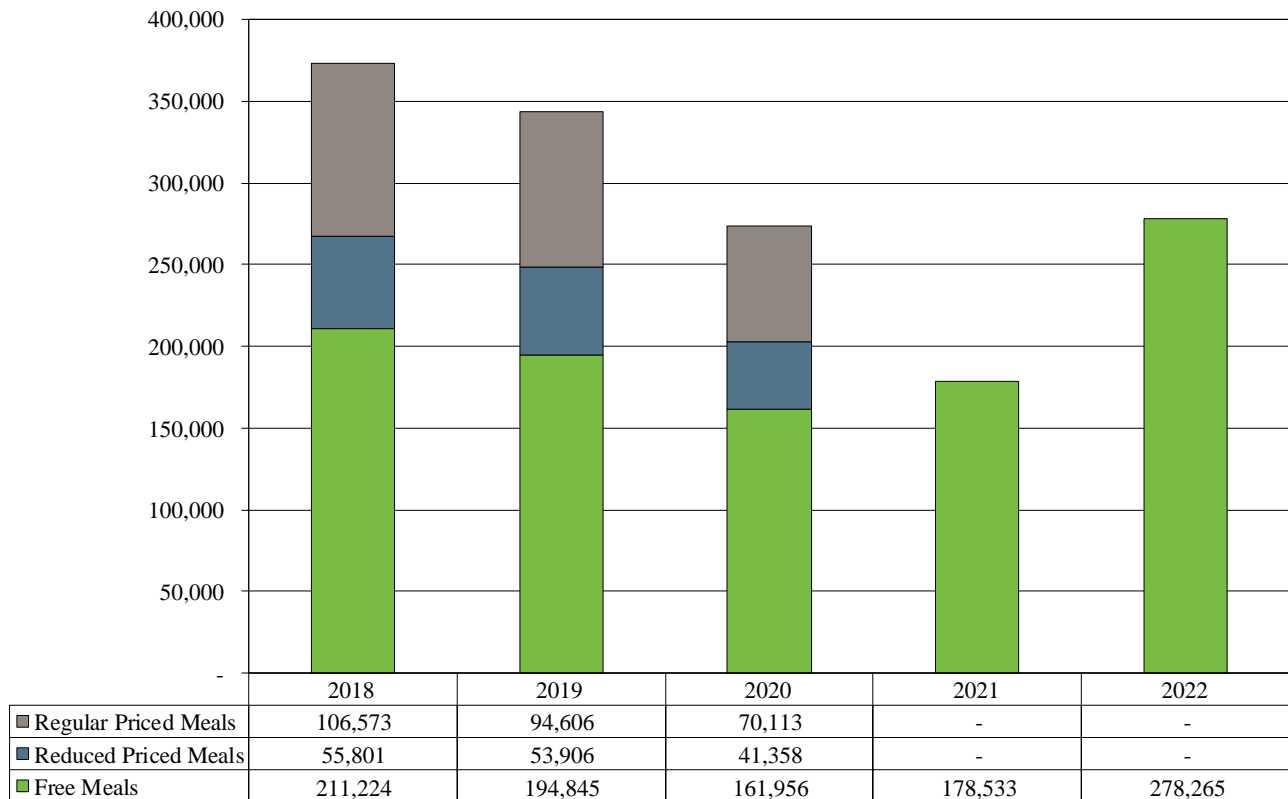
The following table presents five years of comparative operating results for the District's Food Service Fund.

For the Year Ended June 30,	2018	2019	2020	2021	2022
Revenues	\$ 2,045,007	\$ 2,200,263	\$ 1,799,299	\$ 1,609,953	\$ 2,323,742
Expenditures	2,141,389	2,092,615	1,749,648	1,596,883	1,958,341
Excess of revenues over (under) expenditures	(96,382)	107,648	49,651	13,070	365,401
Fund balance, July 1	563,081	466,699	574,347	623,998	637,068
Fund Balance, June 30	\$ 466,699	\$ 574,347	\$ 623,998	\$ 637,068	\$ 1,002,469

For the current year, there was an increase in fund balance of \$365,401. Revenues increased by \$713,789, or 44.3%, and expenditures increased by \$361,458, or 22.6%. The fund balance represents over four month's expenditures based on 2022 levels. The increase in revenues was due an increase in meals served and an increased federal reimbursement rate. The decrease in expenditures was also due to an increase in meals served and increased costs.

The following chart reflects the number and type of lunches served to students over the past five years:

Lunches Served to Students



**Independent School District No. 14
Financial Analysis**

Community Service Fund

The following table presents five years of comparative operating results for the District's Community Service Fund.

For the year ended June 30,	2018	2019	2020	2021	2022
Revenues	\$ 2,888,088	\$ 2,913,111	\$ 2,377,623	\$ 1,762,074	\$ 2,274,864
Expenditures	2,953,535	3,128,632	2,712,966	2,328,968	2,696,594
Excess of revenues under expenditures	(65,447)	(215,521)	(335,343)	(566,894)	(421,730)
Other financing sources	103,616	216,343	284,989	110,297	154,242
Fund balance, July 1	414,919	453,088	453,910	403,556	(53,041)
Fund Balance, June 30	\$ 453,088	\$ 453,910	\$ 403,556	\$ (53,041)	\$ (320,529)

For the year ended June 30,	2018	2019	2020	2021	2022
Components					
Nonspendable	\$ -	\$ 6,765	\$ 5,040	\$ 6,051	\$ 7,203
Restricted for					
Community education	260,914	264,584	274,056	(260,873)	(515,697)
ECFE	78,187	65,849	4,906	29,373	25,985
School readiness	47,235	45,455	24,579	76,494	73,382
Community service	66,752	71,257	94,975	95,914	88,598
Total	\$ 453,088	\$ 453,910	\$ 403,556	\$ (53,041)	\$ (320,529)

Expenditures exceeded revenues by \$421,730 in 2022. Revenues increased \$512,790, or 29.1%, from 2021 to 2022, while expenditures increased \$367,626, or 15.8%. The District transferred a total of \$136,342 from the General Fund to the Community Service Fund to allocate operating referendum dollars, to allocate a portion of lease levy for adult basic education and had a sale of equipment of \$2,425 and proceeds from leases of \$15,475. The community education restriction continues to be in deficit for a second year.

Independent School District No. 14 Legislative Summary

The following is a brief summary of current legislative changes and issues affecting the funding of Minnesota school districts. More detailed and extensive summaries are available from the Minnesota Department of Education (MDE).

State Aid Appropriations

The formula allowance for 2022 is set at \$6,728 and for 2023, the formula allowance is set at \$6,863.

Special Education

The special education hold harmless guarantee was limited to the sum of 80% in 2022 and 75% in 2023 and later, of current year special education program costs plus 100% of special transportation costs plus the tuition adjustment. The annual inflation adjustment used in the calculation of the hold harmless will be reduced by 0.2% per year from 4.4% in 2021 until the inflation adjustment reaches 2.0%.

Coronavirus Aid, Relief, and Economic Security (CARES) Act

Funding provided includes Governor's Emergency Education Relief (GEER) funding totaling \$38.1 million to MDE to be used for technology and summer school programming. Elementary and Secondary School Emergency Relief (ESSER) funding totaling \$140.1 million is 90% allocated based on 2020 Title I, part A allocations and 9.5% is allocated as grants, with the remaining 0.5% available for administration. Child Nutrition Grants to States funding totaled \$160.3 million. ESSER and GEER funds are eligible for spending through September 30, 2022.

Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act

The CRRSA Act was signed into law on December 27, 2020, and provided an additional \$2.75 billion for the Emergency Assistance for Nonpublic School Fund (EANS Fund) of which \$41,697,717 was awarded to Minnesota. Funds are eligible for spending through September 30, 2023.

American Rescue Plan (ARP) Act

The ARP Act was signed into law on March 11, 2021, and focuses on returning to, and maintaining, safe in-person learning for all students.

The ARP includes \$1.3 billion for E-12 education in ESSER funds for Minnesota to help schools returning to, and maintaining, safe in-person learning for all students. Per the federal law, 90% of these funds have been allocated to eligible districts and charter schools. 9.5% of these funds are for flexible use by each state education agency to create a plan to meet the needs of students. Funds are eligible for spending through September 30, 2024.

Property Tax Bill

Effective for taxes payable in 2018, there will be a property tax credit on all property classified as agricultural. The credit will be equal to 40% of the tax on the property attributable to school district bonded debt levies. The credit is increased to 50% for taxes payable in 2020, 55% for taxes payable in 2021, 60% for taxes payable in 2022, and 70% for taxes payable in 2023 and thereafter. Estimated property tax relief totals \$10.9 million for pay 2020, \$18.2 million for pay 2021, and \$27.2 million for pay 2022.

Voluntary Prekindergarten (VPK)/School Readiness Plus

For 2022 and 2023 only, the 4,000 seats currently expiring after 2021 will continue to be funded.

Independent School District No. 14 Legislative Summary

Pension Bill

Augmentation has been eliminated for TRA members after December 31, 2017, and early retirement subsidies have been phased out.

Post-retirement cost of living adjustments (COLAs) have been reduced –

- 1) TRA – lowers the COLA from 2% to 1% for five years; then the rate will increase by 0.1% each year until it reaches 1.5%
- 2) PERA – the increase will be 50% of the increase for Social Security announced January 1, but not less than 0.5% or more than 1.5%
- 3) Defers commencement of COLA for early retirees

The rate of interest paid on refunds of employee contributions to former employees has been reduced from 4% to 3%. TRA required contributions have increased to 7.75% for employees effective for fiscal year 2024. Required employer contributions will increase 0.21% for fiscal year 2019 to fiscal year 2023 and 0.2% in fiscal year 2024 until a required contribution rate of 8.75% is reached. Pension adjustment revenue will increase to match the required contribution increases.

Independent School District No. 14 Emerging Issues

Executive Summary

The following is an executive summary of financial related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant updates include:

- **Accounting Standard Update – GASB Statement No. 96 – Subscription-Based Information Technology Arrangements**
GASB has issued GASB Statement No. 96 relating to accounting and financial reporting for subscription-based information technology arrangements. The requirements of this Statement will improve financial reporting by establishing a definition for subscription-based information technology arrangements and providing uniform guidance for accounting and financial reporting for transactions that meet that definition.
- **Accounting Standard Update – GASB Statement No. 100 – Accounting Changes and Error Corrections**
GASB has issued GASB Statement No. 100 relating to accounting and financial reporting for accounting changes and error corrections. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability.
- **Accounting Standard Update – GASB Statement No. 101 – Compensated Absences**
GASB has issued GASB Statement No. 101 relating to accounting and financial reporting for compensated absences. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave.

The following are extensive summaries of the current updates. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss these issues with you further and their applicability to your District.

Accounting Standard Update – GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements*

This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

Independent School District No. 14
Emerging Issues

Accounting Standard Update – GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements (Continued)*

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The subscription term includes the period during which a government has a noncancellable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government or SBITA vendor will not exercise that option).

Under this Statement, a government generally should recognize a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, – which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. A government should recognize amortization of the subscription asset as an outflow of resources over the subscription term.

Activities associated with a SBITA, other than making subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

- Preliminary Project Stage, including activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. Outlays in this stage should be expensed as incurred.
- Initial Implementation Stage, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage, including activities such as subsequent implementation activities, maintenance, and other activities for a government's ongoing operations related to a SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

In classifying certain outlays into the appropriate stage, the nature of the activity should be the determining factor. Training costs should be expensed as incurred, regardless of the stage in which they are incurred.

Independent School District No. 14 Emerging Issues

Accounting Standard Update – GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements (Continued)*

If a SBITA contract contains multiple components, a government should account for each component as a separate SBITA or nonsubscription component and allocate the contract price to the different components. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single SBITA.

This Statement provides an exception for short-term SBITAs. Short-term SBITAs have a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

GASB Statement No. 96 is effective for reporting periods beginning after June 15, 2022. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.

Accounting Standard Update – GASB Statement No. 100 – *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62*

The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting – understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement.

Independent School District No. 14
Emerging Issues

Accounting Standard Update – GASB Statement No. 100 – *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62 (Continued)*

This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

GASB Statement No. 100 is effective for reporting periods beginning after June 15, 2023. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.

Accounting Standard Update – GASB Statement No. 101 – *Compensated Absences*

The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

Independent School District No. 14
Emerging Issues

Accounting Standard Update – GASB Statement No. 101 – *Compensated Absences* (Continued)

This Statement requires that a liability for certain types of compensated absences – including parental leave, military leave, and jury duty leave – not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

GASB Statement No. 101 is effective for reporting periods beginning after December 15, 2023. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.